

Message Text

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PAGE 01 STATE 141557
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DRAFTED BY EB/IFD/OMA:JABWINDER
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USOECD

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SUBJECT: OECD TURKISH CONSORTIUM

1. WHILE IN PARIS LAST WEEK ON OTHER BUSINESS, DEPARTMENT OFFICER (WINDER - EB/OMA) HAD A LENGTHY CONVERSATION WITH OECD SECRETARIAT OFFICIALS WOOTEN AND KUEHN ON THE FUTURE WORK OF THE TURKISH CONSORTIUM.

2. WINDER NOTED THAT IN OUR VIEW THE CONSORTIUM SHOULD HAVE TWO MAIN OBJECTIVES. THE FIRST IS CONFIDENCE BUILDING. A SUCCESSFUL CONSORTIUM MEETING COULD DEMONSTRATE TO DONOR GOVERNMENTS AND OTHER SOURCES OF EXTERNAL FINANCING TURKEY'S CAPABILITY TO DEAL WITH ITS FUNDAMENTAL ECONOMIC PROBLEMS. IT COULD ALSO DEMONSTRATE TO TURKS THAT OTHERS ARE PREPARED
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 141557

TO HELP THEM ADDRESS THESE PROBLEMS. THE SECOND OBJECTIVE WOULD BE TO ASSIST THE TURKS IN THE PROCESS OF COORDINATION OF ALL EXTERNAL PROJECT ASSISTANCE TO TURKEY THEREBY ENSURING THE MOST RATIONAL USE OF SCARCE EXTERNAL FLOWS. IN THE PROCESS OF CONFIDENCE BUILDING AND COORDINATION, THE CONSORTIUM MIGHT ACT AS A CATALYST FOR INCREASING THE TOTAL FLOWS TO TURKEY. THE FOCUS OF THE CONSORTIUM'S ATTENTION

SHOULD BE ON TURKEY'S DEVELOPMENT PLAN AND SPECIFIC DEVELOPMENT PROJECTS.

3. WINDER SAID THAT IN OUR VIEW THERE WERE A NUMBER OF ISSUES THAT NEED TO BE ADDRESSED BEFORE A CONSORTIUM MEETING ALONG THESE LINES COULD BE HELD. ONE MAJOR ISSUE IS TIMING. THE SUCCESS OF THE MEETING WILL HINGE IN GOOD PART ON THE THOROUGHNESS OF THE PREPARATIONS. THE TURKS MUST COMPLETE WORK ON THE PLAN AND DRAW UP A SENSIBLE, WELL THOUGHT-OUT LIST OF PROJECTS AND INDICATE PRIORITIES AMONG THEM. THERE MUST BE THOROUGH CONSULTATIONS WITH MAJOR DONORS ON BOTH THE PLAN AND THE PROJECTS SO THAT DONORS CAN DECIDE WHAT FINANCING THEY WOULD BE PREPARED TO PROVIDE. ALL THE DETAILS OF THE MEETING MUST BE WORKED OUT AHEAD OF TIME SO THERE ARE NO SURPRISES OR DISAPPOINTMENTS. GIVEN THE COMPLEXITY OF PREPARATIONS, THE BEST TIME MIGHT BE IN THE FALL OR WINTER AFTER AN EDRC REVIEW. ANOTHER ISSUE IS HOW TO COORDINATE WITH NON-OECD MEMBERS BOTH GOVERNMENT AND PRIVATE. THE IBRD HAS HAD CONSIDERABLE EXPERIENCE IN THIS REGARD AND IT WOULD SEEM APPROPRIATE FOR THE OECD AND IBRD TO WORK CLOSELY TOGETHER.

4. KUEHN SAID HE SHARED FULLY OUR VIEWS ON THE MEDIUM TERM FOCUS OF THE CONSORTIUM'S WORK. HE FELT THE CONSORTIUM STILL NEEDED TO FOCUS ON TURKEY'S SHORT-TERM BALANCE OF PAYMENTS DIFFICULTIES HOWEVER. HE ALSO FELT THAT WAITING

CONFIDENTIAL

PAGE 03 STATE 141557

UNTIL THE FALL FOR THE NEXT CONSORTIUM MEETING WOULD BE UNACCEPTABLE TO THE TURKS AND WOULD RESULT IN A LOSS OF MOMENTUM IN THE CONSORTIUM'S WORK.

5. KUEHN SAID THAT THE MOST PRESSING SHORT TERM PROBLEMS WAS TURKEY'S LARGE UNGUARANTEED COMMERCIAL ARREARAGES WHICH HE ESTIMATED AT AROUND \$1 BILLION OF WHICH \$250 MILLION WAS OWED U.S. SUPPLIERS. IN HIS VIEW, THE OECD GOVERNMENTS COULD NOT LEAVE IT TO THE TURKS TO SETTLE THESE ARREARS BY THEMSELVES SINCE THERE WERE TOO MANY SUPPLIERS INVOLVED AND THE PROCESS WOULD TAKE TOO LONG. THERE IS A DANGER THAT TURKEY MAY NOT BE ABLE TO COMPLY WITH THE TERMS OF ITS COMMITMENT TO THE IMF REGARDING ARREARS. CONSEQUENTLY, GOVERNMENTS MUST ASSUME RESPONSIBILITIES FOR EITHER RESCHEDULING, REFINANCING OR GUARANTEEING THE REFINANCING OF THE ARREARS. WINDER EXPLAINED THE POLICY AND CONGRESSIONAL CONSTRAINTS WHICH MADE IT IMPOSSIBLE FOR THE USG TO ASSUME ANY FINANCIAL RESPONSIBILITY FOR UNGUARANTEED CREDITS.

6. AFTER A LENGTHY DISCUSSION, IT WAS AGREED THAT THE BEST APPROACH MIGHT BE TO HOLD AN INFORMAL MEETING OF THE

CONSORTIUM IN LATE JUNE. (WE LEARNED SUBSEQUENTLY THAT KUEHN PLANS TO HOLD THE MEETING JUNE 27.) THE AGENDA WOULD CONSIST OF TWO ITEMS; TURKEY'S BALANCE OF PAYMENTS PROSPECTS FOR THE REMAINDER OF 1978 AND SOME MEDIUM TERM ASPECTS OF THE CONSORTIUM'S WORK. UNDER THE FIRST ITEM THE GROUP WOULD DISCUSS HOW TO DEAL WITH TURKEY'S UNGUARANTEED ARREARAGES AND THE PROSPECTS FOR INCREASED OFFICIAL EXPORT CREDIT FINANCING FOR TURKEY. THERE WOULD ALSO BE A DISCUSSION OF THE STATUS OF TURKEY'S NEGOTIATIONS WITH THE PRIVATE BANKS. WOOTEN SAID HE WOULD EXPLORE THE POSSIBILITY OF INCLUDING REPRESENTATIVES OF THE PRIVATE BANKS IN THE DISCUSSION PERHAPS UNDER BIAC AUSPICES. KUEHN IS GOING TO PREPARE AN ISSUES PAPER ON THE SECOND ITEM. VANCE

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